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Controller Finds Only Modest Progress in City of Bell

Many Problems Remain Unaddressed

SACRAMENTO – State Controller John Chiang today released a follow-up [review](#) of a series of 2010 audits focused on the City of Bell's internal controls, management of state and federal funds, its dissolved redevelopment agency and use of gas tax proceeds. Today's review identified nearly three dozen material weaknesses in the City's financial operations, and noted serious concern with the City's immediate fiscal condition and cash balances.

"The City of Bell has made some progress since it ejected a corrupt city management two years ago," said Chiang. "But many of the same fiscal management and internal control lapses that allowed Bell to fail its citizens in the past remain unaddressed today. This review does more than point out problems. It serves as a blueprint to preventing the return of unlawful taxation, abusive spending and backroom deal-making. Some problems are urgent, others are structural, but none can be ignored."

The 2010 audits by the State Controller found widespread problems, including blatant conflicts of interest and self-serving transactions. It also found unlawful property taxes, which were subsequently returned to homeowners. Local authorities have already prosecuted several of the leaders responsible for the City during that time.

The review shows the City of Bell is facing significant fiscal challenges that, if left unresolved, could lead to a fiscal crisis impacting its ability to meet obligations and deliver critical public services.

For example, the City's new management acknowledged during the course of the audit that the City could not accurately report its cash on-hand. The Controller's review shows a possible negative balance in the City's General Fund of \$1.1 million, which represents almost 9 percent of the City's annual budget.

The City has a more shallow tax base than it previously enjoyed, as a result of correcting property tax assessments and business fees to lawful levels.

On the other side of the ledger, the City faces a swell of expenses, including:

- \$3.182 million in refunds of unlawfully-levied business taxes and property assessments.
- \$663,000 of gas tax funds that must be repaid by the General Fund.
- \$500,000 of RDA assets that must be returned to the dissolved agency's successor, which has adopted the old RDA's debts.
- \$256,000 in grants that must be repaid to the State Department of Parks and

Recreation.

- \$4 million in potential fees for ongoing litigation.

The review was a follow-up to the four audit reports released in 2010 in which the Controller recommended 34 corrective actions. The latest review found that the City had implemented one recommendation, taken some corrective action on 12, but had not implemented 21 recommendations. As an example, while the City has taken action to define the amount of outstanding employee loans, it has not taken any definitive action on collecting the \$700,000. Nor has it developed processes for refunding the \$3.2 million in unlawful business taxes and property assessments.

One of the 2010 reports – the Administrative and Internal Accounting Control Report – included one finding that identified 57 internal control issues that needed to be corrected to ensure sound administrative and internal accounting controls. The recent follow-up shows the City of Bell has corrected 25 and partially addressed 13; 19 of the issues have not been addressed.

For example, the city has yet to establish oversight procedures to ensure the accuracy of financial and accounting records prepared by staff. In addition, there are no policies and procedures in place to assess and manage risk.

"Bell's new leadership deserves credit for changing the culture of City Hall by emphasizing transparency and inviting more citizen participation in its decision-making," said Chiang. "However, the potential for fiscal mismanagement and budget failure remain high until they address the major gaps found in their accounting, reporting, and other management practices."

After the 2010 Bell scandal, the Controller sponsored a legislative package to give the State a greater role in ensuring sound fiscal management is practiced at the local level, including offering assistance before local government financial problems leave no options other than bankruptcy.

This year, (Rendon), which would extend the Controller's authority to identify fiscal mismanagement in a more timely way, create meaningful consequences for local agencies that fail to provide proper fiscal stewardship, and establish support mechanisms for local agencies to use before they reach a crisis. AB 941 is currently in the Assembly Appropriations Committee.

Read more about the Controller's 2010 audits of Bell regarding the [spending of state and federal funds](#), [redevelopment and gas tax funds](#), and [bonds, unlawful payments and illegal taxes](#).

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